Financial Statements of

Saskatchewan Association of Health Organizations Master Trust Combined Investment Fund

December 31, 2009

Provincial Auditor Saskatchewan

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SASKATCHEWAN

Auditor's Report

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of net assets of Saskatchewan Association of Health Organizations Master Trust Combined Investment Fund as at December 31, 2009 and the statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the net assets of the Fund as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
May 5, 2010

Brian Atkinson, FCA
Acting Provincial Auditor

Provincial Auditor Saskatchewan

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SASKATCHEWAN ASSOCIATION OF HEALTH ORGANIZATIONS
MASTER TRUST COMBINED INVESTMENT FUND
Statement of Net Assets
As at December 31

		2009	2008
ASSETS			
Investments (Note 3):			
Short-term investments		$ 1,664	$ 268,461
Bond funds		53,795,866	48,279,240
Equities	- Canadian	16,496,440	13,765,091
	- U.S.	8,147,081	12,487,971
	- U.S. pooled funds	-	4,275,135
	- Non North American pooled funds	13,300,459	11,321,866
	- Global pooled funds	16,680,989	-
		108,422,499	90,397,764
Cash		33,480	26,900
Dividends receivable		30,222	42,644
TOTAL ASSETS		108,486,201	90,467,308
LIABILITIES AND NET ASSETS			
Securities transactions payable		32,980	6,006
Total Liabilities		32,980	6,006
Net Assets (Note 5)		108,453,221	90,461,302
TOTAL LIABILITIES AND NET ASSETS		$ 108,486,201	$ 90,467,308

See accompanying notes

On behalf of the SAHO Board of Directors:

SASKATCHEWAN ASSOCIATION OF HEALTH ORGANIZATIONS
MASTER TRUST COMBINED INVESTMENT FUND
Statement of Operations and Changes in Net Assets
For the Year Ended December 31

	2009	2008
Investment Income		
Interest	$ 2,234,256	$ 2,027,253
Dividends	1,429,485	1,263,835
Pooled fund income	-	585,498
Net realized loss on sale of investments	(5,818,320)	(922,630)
Unrealized gain (loss) on investments	15,337,122	(14,401,368)
	13,182,543	(11,447,412)
Value of Master Trust units issued	6,199,151	5,391,262
Value of Master Trust units redeemed	(1,372,367)	(826,832)
Investment management fees	(17,408)	(26,923)
	4,809,376	4,537,507
Net increase (decrease) to Net Assets	17,991,919	(6,909,905)
NET ASSETS, BEGINNING OF YEAR	90,461,302	97,371,207
NET ASSETS, END OF YEAR	$ 108,453,221	$ 90,461,302

See accompanying notes

SASKATCHEWAN ASSOCIATION OF HEALTH ORGANIZATIONS
MASTER TRUST COMBINED INVESTMENT FUND
Statement of Cash Flows
For the Year Ended December 31

	2009	2008
INVESTING AND OPERATING ACTIVITIES		
Proceeds from issuing Master Trust units	$ 6,226,125	$ 5,397,268
Redemption of Master Trust units	(1,372,367)	(826,832)
Proceeds from sale of investments	35,941,209	21,088,373
Purchase of investments	(44,333,143)	(28,913,054)
Investment income received	3,562,164	3,294,541
Investment management expenses paid	(17,408)	(26,923)
Net cash flows provided by investing and operating activities	6,580	13,373
CASH, BEGINNING OF YEAR	26,900	13,527
CASH, END OF YEAR	$ 33,480	$ 26,900

See accompanying notes

SASKATCHEWAN ASSOCIATION OF HEALTH ORGANIZATIONS
MASTER TRUST COMBINED INVESTMENT FUND
Notes to the Financial Statements
December 31, 2009

1. DESCRIPTION OF THE MASTER TRUST COMBINED INVESTMENT FUND

The Saskatchewan Association of Health Organizations (SAHO) administers the assets on behalf of four disability income plans [the Canadian Union of Public Employees (C.U.P.E.) Plan, the Service Employees International Union (S.E.I.U.) Plan, the General Plan, and the Saskatchewan Union of Nurses (S.U.N.) Plan (the Plans)]. SAHO (the Administrator) receives directions from the SAHO Board of Directors who receive advice from the Employee Benefits Committee, in accordance with the terms of each applicable collective agreement.

The investments of the Plans are managed as a pooled investment fund referred to as the Master Trust Combined Investment Fund (the Master Trust). Its purpose is to provide a secure investment structure which is then used to provide funding to the Plans for present and future disability payments to eligible claimants.

Each disability plan's interest in the Master Trust is based on the number of units they hold at any point in time relative to the total units issued and outstanding. Under the terms of the Master Trust:

- Ownership units of the Master Trust were initially allocated to the unit holders based on the fair value of the investment portfolios contributed;
- The fair value of the Master Trust ownership units are calculated at each calendar month-end by dividing the outstanding ownership units into the month-end fair value of the Master Trust; and
- Net gains realized, interest, and dividends earned by the Master Trust are allocated to the unit holders at the end of the year based on the number of Master Trust ownership units owned at December 31.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include the following significant accounting policies:

a) Changes in Accounting Standards

In June 2009, the Canadian Institute of Chartered Accountants (CICA) issued amendments to its Financial Instruments – Disclosure standard to expand disclosures of financial instruments consistent with new disclosure requirements made under International Financial Reporting Standards. These amendments were effective for the Plan commencing January 1, 2009 and introduces a three-level fair value hierarchy that

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Changes in Accounting Standards (continued)

prioritizes the quality and reliability of information used in estimating the fair value of financial instruments. The fair values for the three levels are based on:

- Level 1 – quoted prices in active markets.
- Level 2 – models using observable inputs other than quoted market prices.
- Level 3 – models using inputs that are not based on observable market data.

b) Financial instruments

All financial instruments that are financial assets or financial liabilities have been identified and classified. The classification determines how each financial instrument is measured. The Master Trust's financial instruments and their classifications were determined by the Administrator and are as follows:

(i) Securities transactions receivable, Dividends receivable, and Securities transactions payable

Dividends receivable are classified as loans and receivables. Securities transactions payable are classified as other liabilities. Each of these is measured at amortized cost which approximates their fair value due to their short term nature.

(ii) Investments

Investments are classified as held-for-trading as this classification reflects the investment intentions of the Master Trust. Investments are recorded at fair value which is based on published quotes.

The Master Trust uses the accrual method for recording income and expenses. Dividends and pooled fund distributions are recognized when declared. Interest income is recorded using the effective interest method. Investment transactions are accounted for on the trade date with identifiable transactions costs being expensed when incurred.

Gains and losses are recorded in revenues or expenses when realized and are determined with reference to the average cost of investments. Unrealized changes in fair value are determined with reference to the average cost of investments and are recorded in revenues or expenses for the period in which the change in the fair value occurs.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial instruments (continued)

(iii) Cash

Cash is classified as held-for-trading and is recorded at fair value.

c) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires that estimates and assumptions are made which affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimations.

d) Foreign currencies

Foreign currency transactions are translated into Canadian dollars using the transaction date exchange rate. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date. Exchange gains or losses arising on the translation of monetary assets and liabilities or sale of investments are included in the statement of operations and changes in net assets in the year incurred.

e) Future accounting standards

The Canadian Accounting Standards Board requires all publicly accountable enterprises to adopt International Financial Reporting Standards (IFRS) for annual financial statements relating to fiscal years beginning on or after January 1, 2011. As a minimum, IFRS requires comparative information for the previous fiscal year. The transition from Canadian GAAP to IFRS, if applicable to the Master Trust, will commence for its 2011 fiscal year. SAHO, as the administrator of the assets, is currently assessing whether IFRS will apply to the Master Trust. If IFRS does apply, the transition to IFRS is expected to impact the financial reporting, business processes and information systems. A high level initial review of the implications of adopting IFRS has commenced.

3. FINANCIAL INSTRUMENT RISK MANAGEMENT

a) Credit risk

Credit risk arises from the potential for issuers of securities to default on their contractual obligations. This risk is managed by the following policies and procedures:

- The Master Trust limits credit risk by dealing with securities that are considered to be investment-grade quality as rated by external credit rating agencies;
- The Statement of Investment Policies and Procedures (SIP&P) of the Master Trust requires the investment managers to minimize undue concentration of investments in any single geographic area, industry, or company;
- A requirement of the SIP&P is the investments of the Master Trust are distributed among several classes of assets based on an established asset mix. This asset mix specifies the minimum, maximum and optimal level by type of investment such as money market securities, bonds, and equities.
- The investment portfolio and investment managers are monitored continuously and their results are reviewed regularly by SAHO's Board of Directors.

Short-term investments consist of investments in an institutional short term investment fund (the Fund), which invests in high quality short term obligations issued or guaranteed by Canadian governments, or issued by corporations with a maximum term to maturity of one year. The minimum acceptable credit rating for these investments is R1 or equivalent.

Earnings are reinvested within the Fund.

Investments in bond funds consist of two active managed bond funds (the Funds). Earnings in the Funds are reinvested in each respective fund and distributed out to unit holders on an annual basis.

The Master Trust's maximum credit risk exposure related to financial assets is as follows:

Cash	$	33,480
Dividends receivable		30,222
Short-term investments		1,664
Bond funds		53,795,866
Equities		54,624,969
	$	108,486,201

3. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

a) Credit risk (continued)

Determination of fair value

The best evidence of a fair value is from an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

- Level 1 – quoted prices in active markets are readily available.
- Level 2 – valuation models using observable market inputs other than quoted market prices.
- Level 3 – models using inputs that are not based on observable market data.

All fair values of the financial assets of the Plan at December 31, 2009 used Level 1 fair values.

b) Liquidity risk

Liquidity risk is the risk that the Master Trust will not be able to meet all cash outflow obligations as they come due. The following policies and procedures are in place to mitigate this risk:

- The Plans maintain sufficient assets to discharge their future disability claim obligations and to generate cash flow required for disability payments without having to sell their units in the Master Trust;
- All investments of the Master Trust are rated as investment grade by external credit rating agencies, thus providing for a larger base to sell its investments if needed.

3. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

c) Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on cash flows, financial position and income. The Master Trust manages this exposure to fluctuations in interest rates by investing in a mix of fixed and variable rate investment assets. Duration is a measure used to estimate the extent market values of fixed income investments could change due to changes in interest rates.

d) Foreign currency risk

Foreign currency risk impacts the Master Trust upon conversion of non-Canadian holdings of pooled funds which invest in foreign equities and bonds at various points in time during the fiscal year at different foreign exchange rates. During the year, there may be adverse changes in foreign exchange rates. The largest notional amount of foreign currency held by the Master Trust is US dollars with the remainder held in EAFE (Europe, Australasia and Far East) currencies.

To mitigate currency risk, the Master Trust's investment policy allows up to 10% of the entire bond portfolio's market value to be invested in foreign currencies. At December 31, the exposure to US dollar denominated bonds was 1.23% (2008 – 2.23%) [US dollar investments represents 15.64% (2008 – 18.53%) of the entire investment portfolio] and EAFE currencies denominated bonds was nil (2008 – nil) [EAFE currencies investments represent 20.71% (2008 – 12.52%) of the entire investment portfolio].

At December 31, a 10% change in the Canadian dollar to US dollar exchange rate would result in approximately a $1.7 million (2008 – $1.7 million) change in net assets and unrealized gains/losses on investments. A 10% change in the Canadian dollar to EAFE currencies exchange rate as at December 31 would result in approximately a $2.2 million (2008 – $1.1 million) change in net assets and unrealized gains/losses on investments.

e) Equity risk

Equity risk is the uncertainty associated with the value of equity investments due to changes in equity markets. To mitigate equity risk, the SIP&P has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits. The Master Trust is exposed to changes in equity prices in Canadian, US and EAFE markets through its investments. Equity investments comprise approximately 50.4% (2008 – 46.3%) of the overall carrying value of the Master Trust investment fund.

3. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

e) Equity risk (continued)

The approximate impact to net assets and unrealized gain/losses on investments to a 10% change in equity prices is:

- $1.65 million (2008 – $1.4 million) for changes in Canadian equities (S&P/TSX Composite Index);
- $0.81 million (2008 – $1.7 million) for changes in US equities (S&P 500 Index)
- $1.33 million (2008 – $1.1 million) for changes in non-North American equities (MSCI EAFE Index); and
- $1.66 million (2008 – n/a) for a change in Global pooled funds (MSCI AC World + Index)

4. CAPITAL MANAGEMENT

The primary objective of capital management for the Master Trust is to maintain adequate balances in its cash, short-term and longer-term investment portfolios. These capital sources are used to assist in achieving consistency and stability in funding, which is then available to the Plans, to pay current and future approved disability claims along with the related administrative expenses. The Master Trust is not subject to any externally imposed capital requirements.

The Master Trust's only source of cash is the amounts it receives from the Plans. Neither the Plans nor the Administrator contribute any other cash to the Master Trust. Also, the Master Trust cannot go to public capital markets to issue debt or common shares.

5. NET ASSETS

The net assets of the Master Trust, with a fair value of $108,453,221 at December 31, 2009 (December 31, 2008 – $90,461,302), represents the total fair value of the ownership units held by the Plans. The units held by the Plans are:

	2009	2008
Disability Income Plan - C.U.P.E.	**111,149.503**	107,505.173
Disability Income Plan - S.E.I.U.	**133,386.891**	134,172.498
Disability Income Plan - S.U.N.	**113,805.086**	99,487.898
Disability Income Plan - General	**145,434.394**	138,326.428
Total units issued and outstanding, end of period	**503,775.874**	479,491.997

5. NET ASSETS (continued)

The units issued and redeemed during the year were as follows:

	2009	2008
Balance, beginning of period	**479,491.997**	457,731.168
Issued during the period	**31,499.951**	25,927.996
Redeemed during the period	**(7,216.074)**	(4,167.167)
Balance, end of period	**503,775.874**	479,491.997

6. RELATED PARTIES

The Master Trust is related to the Plans and the Administrator. Transactions with these related parties are in the normal course of operations. They are recorded at the agreed upon exchange rates and are settled on normal trade terms.

Investment management fees are the only expense that is allowed under the Master Trust. All other administrative expenses of the Master Trust are paid by the Administrator, on behalf of the Plans. These expenses are charged directly to the Plans by the Administrator using a systematic, rational manner.